



Wisconsin Federation of Cooperatives

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Date: 1/29/2008

To: Members, Senate Committee on Campaign Finance Reform, Rural Issues
and Information Technology

From: John Manske, Director of Government Relations

RE: Removal of our opposition to SB 380

The Wisconsin Federation of Cooperatives (WFC) distributed a memo dated 1/25/08 that indicated our opposition to SB 380, relating to the sale of renewable motor vehicle fuels. We are pleased to report that **we have removed our opposition to this legislation in light of amendments that have been drafted by the bill's author, Senator Kreitlow.** These amendments speak to concerns that we forwarded to the committee members last Friday. Among the issues addressed by the amendments drafted by Senator Kreitlow are the following:

- Coordination with federal processes relating to credit trading.
- Delaying effective dates for the specific biodiesel requirements found in Section (4). In addition, DATCP will be asked to study the availability and distribution of biodiesel in our state.
- Reduction of penalties found in section (6).
- Harmonizing this state renewable fuels proposal with federal law as it relates to advanced biofuel and cellulosic biofuel.

We thank Senator Kreitlow for his willingness to advance these adjustments to SB 380 and encourage you to support his amendments to SB 380. Thank you.

WISCONSIN PIPE TRADES ASSOCIATION

11175 West Parkland Avenue • Milwaukee, WI 53224-3135 • OFC: (414) 359-1310 • FAX (414) 359-1323

Testimony in support of SB 380

Senate Committee on Campaign Finance Reform, Rural Issues and
Information Technology
Room 400-SE 1:00 pm
January 16, 2008

Steve Breitlow, Secretary/Treasurer
Wisconsin Pipe Trades Association

Good morning Chairman Kreitlow and members. Thank you for the opportunity to testify in support of SB 380 on behalf of the nearly 9,000 working men and women of the Wisconsin Pipe Trades Association (WPTA). I also want to recognize Sen. Kreitlow and Rep. Suder for introducing this good public policy.

My name is Steve Breitlow and I have been in the trades for more than 27 years. I currently serve as Secretary/Treasurer of the Wisconsin Pipe Trades Association and business manager of Plumbers Local 75.

As a country and as a state, we need to reduce our dependence on foreign oil. In addition to offsetting our dependence, this bill has the potential to create jobs and build the economy of Wisconsin.

For our members in the plumbing, steamfitting and sprinkler fitting industries this legislation creates an important opportunity for jobs. In addition to those who work in the pipe trades, Wisconsin's farmers, construction workers, plant employees and other bio-fuel product industry will thrive from the production and use of renewable fuels. Our neighbors in Minnesota and Iowa have benefited greatly with the construction of ethanol plants. We would like to see workers in our state reap the same benefits.

According to the Wisconsin Bio Industry Alliance, ethanol production created over 160,000 jobs and added \$41.9 billion of gross output to the U.S. Economy. In Wisconsin, an average ethanol plant creates 40 full-time, high-paying jobs. Construction of a new ethanol plant would employ nearly 100 skilled pipe trades people alone, and provide a one-time boost of \$112 million to the local economy.

This is just part of the economic value that ethanol and the bio-fuels manufacturing industry will provide to the state of Wisconsin, a value that will be a cornerstone for future economic growth and prosperity for the citizens of Wisconsin.

SB 380 encourages energy independence. Relief from gas prices is nowhere in sight, and oil prices are reaching \$100 a barrel. Most of our oil comes from the Middle East, with the U.S. importing over 10 million barrels of crude oil a day. In 2006 the U.S. produced 4.9 billion gallons of ethanol, which displaced 206 million barrels of oil. Wisconsin has the ability and workforce to add to this number; there is no time like the present to enact this legislation.

SB 380 has the opportunity to create jobs; boost Wisconsin's economy; reduce our dependence on foreign oil; help the environment; and ultimately leave Wisconsin in a better position than it is today.

On behalf of all of our members statewide, I encourage your support of SB 380. Thank you and I would be happy to address any questions at this time.



Wisconsin Manufacturers & Commerce

Wisconsin Manufacturers'
Association • 1911

Wisconsin Council
of Safety • 1923

Wisconsin State Chamber
of Commerce • 1929

James S. Haney
President

James A. Buchen
Vice President
Government Relations

James R. Morgan
Vice President
Marketing & Membership

Michael R. Shoys
Vice President
Administration

TO: Senate Committee on Campaign Finance Reform, Rural
Issues & Information Technology

FROM: Scott Manley, Environmental Policy Director

DATE: January 16, 2008

RE: Senate Bill 380 – Renewable Fuel Mandate

Wisconsin Manufacturers & Commerce (WMC) has significant concerns regarding the impact of Senate Bill 380 on Wisconsin businesses, motorists and the environment, and respectfully requests that members of the Senate Committee on Campaign Finance Reform, Rural Issues & Information Technology oppose this legislation.

WMC is the state's largest business trade association, with over 4,000 members in the manufacturing, service, health care, retail, energy and insurance sectors of our economy. WMC is dedicated to making Wisconsin the most competitive state to do business in the nation, and toward that goal, we support consistent, cost-effective and market-driven policies.

WMC supports the development of renewable fuels, and the creation of a statewide business climate where all industries, including the ethanol industry, will flourish. WMC also believes that commodity markets, including the motor fuel market, will deliver the lowest price to consumers when the market forces of supply and demand are allowed to operate with minimal government interference.

Unfortunately, we believe Senate Bill 380 will lead to significant distortions in the motor fuel market resulting in much higher gas prices for Wisconsin motorists, as well as the businesses who rely upon our highway system for their supply and distribution chains. We further believe the bill will ultimately make Wisconsin a less competitive state to do business by creating problems for Wisconsin-based engine and outdoor equipment manufacturers, and by adding to our state's environmental regulatory burden.

I. SB 380 WILL SIGNIFICANTLY INCREASE WISCONSIN GAS PRICES

Senate Bill 380 mandates that the percentage of motor fuel sold in Wisconsin be at least 10% renewable beginning in 2009, increasing to 25% renewable by 2025. There are a number of reasons why the approach taken in this bill will lead to substantially higher gas prices.

In essence, SB 380 is a thinly disguised corn ethanol mandate. For example, the only practical way to meet the bill's 10% renewable fuels

target by 2009 is to put 10% ethanol in virtually every gallon of gas sold in the state. As such, the bill is fraught with all of the market distortion concerns associated with an outright E-10 fuel mandate. These distortions to the market and the related price increases for Wisconsin motorists only get worse as the mandate increases to 25%.

Under the federal RFS requirements, there is at least some flexibility in meeting national goals to negotiate competitive ethanol purchase prices. For example, under the federal scheme, it might be cheaper to provide higher percentages of ethanol in other states due to transportation or other factors. In addition, refiners can now increase or reduce the amount of ethanol depending on the price of ethanol, which interjects market forces to restrain ethanol price increases. SB 380 precludes that option because the only viable means to meet the 10% mandate is to put ethanol in all conventional gasoline. This, in turn, gives ethanol producers market power in Wisconsin to extract higher purchase prices for ethanol, that will invariably lead to higher gasoline prices for Wisconsin motorists. In effect, SB 380 is a hidden gas tax for Wisconsin motorists by robbing refiners of the flexibility to determine where and how much ethanol is used based price, and instead mandates its use at a set percentage of fuel sales in Wisconsin.

As the mandated percentages increase, the distortions in the market only get worse. Although SB 380's 10% mandate creates market distortions and higher prices, refiners can meet that mandate by using corn ethanol in conventional gasoline. But refiners have little ability to affect the market decisions made by consumers relative to E-85 consumption. This creates a compliance problem when the law dictates 15%, 20% and 25% renewable fuel mandates. For example, at a 15% RFS, the following levels of E85 sales would be required to comply with SB 380.

If the % RFS attributable to E10 sales is...	Then gallons of E85 sales must be at least...	% Increase needed over 2006 E85 sales
4	317,447,059	13,802
5	288,588,235	12,547
6	259,729,412	11,293
7	230,870,588	10,038
8	202,011,765	8,783
9	173,152,941	7,528
10	144,294,118	6,274
Total Ethanol Needed	367,950,000	

As the table above notes, the percentage increases in E-85 needed to meet the SB 380 mandate even at 15% RFS is not feasible, and certainly not within the ability of refiners to control, as consumers have generally opted against purchasing E85. Approximately 2% of vehicles titled in

Wisconsin as of January 1, 2007 were capable of burning E85, and of those vehicles, consumers averaged less than 2 gallons of E-85 consumption per month. Refiners only option to cover the shortfall resulting from a lack of E-85 sales under a 15% RFS would involve purchasing renewable fuel credits. The availability of those credits is speculative at this time, but if available, the price could be very expensive. Any premium charged for those credits will be passed on to consumers in the form of higher gas prices.

It is noteworthy that ethanol producers, who meet the bill's definition of "refiners," in addition to having pricing power associated with a state mandate, will be granted a credit windfall under the bill. This results in ethanol producers winning a double-billing lottery for the same gallon of ethanol. For example, gasoline refiners must purchase ethanol at elevated prices to meet a state mandate. In turn, for each gallon sold, the ethanol producer generates a credit for that percentage above the mandated RFS (e.g., a 15% RFS results in an 85% credit for each gallon of pure ethanol sold). Since gasoline refiners will have no choice but to purchase these limited credits to meet the RFS, the ethanol producers can extract more money for the same gallon of ethanol already sold. This amounts to another gas tax driving up fuel costs for Wisconsin motorists.

The bill also provides disincentives for investments in Wisconsin's fuels infrastructure that will also have a long-term adverse impact on prices. SB 380 specifically targets those refiners who conduct business in this state through Wisconsin-based terminals. It therefore discourages investment in Wisconsin fuel supply infrastructure and Wisconsin terminal operations. It encourages the inefficient sale of fuel trucked in from terminals outside the state. The bill essentially punishes those companies who have already invested in transport and storage systems to meet Wisconsin's consumer demand. The result is very likely less investment in a Wisconsin infrastructure that could produce more efficient delivery of gasoline to Wisconsin. Inefficiency in delivery system translates into higher fuel prices in Wisconsin.

If it is more economical for refiners to shift fuel supply to other markets, Wisconsin, which is already at the end of the pipeline, could face supply disruptions - which in turn leads to higher gas prices for the consuming public under basic supply and demand economics.

II. SB 380 WILL LEAD TO UNINTENDED ADVERSE IMPACTS ON WISCONSIN ENGINE AND OUTDOOR EQUIPMENT MANUFACTURERS.

Manufacturing is a critical component of our economy, and accounts for more than \$44 billion in economic output each year - nearly one-fourth of all goods and services in our state. In 2005 alone, Wisconsin manufacturers exported more than \$14 billion in goods to other countries.

Hundreds of thousands of Wisconsin families depend either directly or indirectly on a healthy manufacturing sector for their livelihood.

There are approximately 500,000 workers in Wisconsin's manufacturing sector, including many who are employed in the engine manufacturing and outdoor equipment manufacturing sectors. These jobs, which include both union and non-union workers, pay among the highest wages in our workforce, with salaries averaging over \$44,000 per year.

We therefore believe it is critically important that policymakers, however well-intended, avoid adopting laws that threaten the competitiveness of Wisconsin engine and equipment manufacturers. However, our members have expressed serious concerns regarding the impact of ethanol blends above 10% on the functionality of their products.

Specifically, engine manufacturers are concerned that the higher combustion temperatures associated with ethanol blends above 10% result in increased wear on cylinder walls, diminished ability to maintain engine lubrication, and degradation of seals resulting in fuel line problems.

We are also told that the oxygenating properties associated with higher ethanol blends result in leaner combustion, causing carburetion problems leading to decreased engine performance and improper function. In some cases, retrofit kits would likely be required to allow engines to run properly at higher ethanol blends.

Because of these engine wear and performance concerns, manufacturers warn their customers against using fuel with an ethanol content above 10% in their owners manuals. WMC believes that mandating ethanol blends beyond this level will create warranty and product reliability problems for Wisconsin-based manufacturers. As noted above, these manufacturers are a critical sector of our state's economy, and we cannot afford to adopt regulations that diminish their ability to compete in the national and international marketplaces.

Furthermore, because Wisconsin engine and outdoor equipment manufacturers cannot afford to make boutique products for dozens of states with conflicting renewable fuel policies, a national solution represents a much better approach to this issue. Following a uniform and consistent federal policy would ensure that Wisconsin manufacturers are not disadvantaged by having to comply with two separate layers of state and federal fuel policy.

III. SB 380 WILL ADD TO WISCONSIN'S ENVIRONMENTAL REGULATORY BURDEN BY INCREASING EMISSIONS OF OZONE-FORMING POLLUTANTS

Studies conducted by the US EPA indicate that ethanol-blended fuel increases levels of two air pollutants responsible for ozone formation. Evaporative emissions associated with ethanol result in higher volatile organic compound (VOC) emissions, and combustion of ethanol blends leads to increased levels of nitrogen oxide (NOx) emissions. Because of air quality concerns, the federal Clean Air Act prohibits blending more than ethanol 10% ethanol for conventional motor fuel.

The Wisconsin DNR issued a report in 2005 describing the adverse impact an ethanol mandate would have on Wisconsin air quality. In its report, the DNR equated an E10 mandate with the amount of NOx pollution resulting from a 350 Megawatt coal-fired power plant. The DNR further pledged to require Wisconsin businesses to pay the regulatory costs associated with the additional ethanol pollution from motor vehicles.

Promises to turn a blind eye toward this additional pollution are generally not helpful manufacturers, because promises cannot stop the additional pollution from impacting the ozone monitors throughout our state - and the ozone monitors are what drive our manufacturers' regulatory burden. WMC is particularly concerned by mandating additional ozone pollution at a time when the EPA recently proposed to significantly tighten the ozone standard, placing many more Wisconsin counties and employers at risk of paying the ozone penalty.

IV. CONCLUSION

In conclusion, WMC believes the considerable cost of Senate Bill 380 to motorists and Wisconsin businesses far outweigh any benefits associated with this legislation. Rather than adopting unrealistic and unattainable state-only renewable fuel mandates, WMC urges lawmakers to consider policies that align with federal energy law. Wisconsin is home to thousands of high-paying jobs in the engine and outdoor equipment manufacturing sectors, and there are many more jobs at companies who supply and support these industries. We cannot afford to jeopardize any of these jobs by adopting policies that make it more difficult for these companies to compete. Nor can we afford to add to our state's considerable environmental regulatory costs by mandating additional ozone pollution. For these reasons, WMC urges Committee Members to oppose passage of Senate Bill 380.

Thank you for your thoughtful consideration of industry's position with respect to this legislation. Please feel free to contact me if you have any questions, or if I can provide you with additional information, at (608) 258-3400 or smanley@wmc.org.



State of Wisconsin
Jim Doyle, Governor

Office of Energy Independence
Judy Ziewacz, Director

Statement on AB 682/SB380
By Judy Ziewacz, Executive Director
Office of Energy Independence

Before the
Senate Committee on Campaign Finance Reform,
Rural Issues and Information Technology

January 16, 2008

Chair Kreitlow and Members:

Governor Doyle's Executive Order #192 tasks the Office of Energy Independence with moving Wisconsin toward obtaining 25% of our transportation fuels and 25% of our power from renewable sources by 2025. This 25 x 25 goal was reaffirmed in the recent state budget law.

We want to commend you Chair Kreitlow and Representative Suder, as well as the bi-partisan group of co-sponsors from each house, for collaborating on this legislation. We believe the concept of this bill is a good one, it is right for the state.

Approximately 5% of the 2.384 billion gallons of motor fuel currently sold in Wisconsin is from renewable sources. If this law were in effect today, we would be selling 596 million gallons of ethanol instead of the current 130 million gallons.

Our *Wisconsin Energy Statistics* report, which tracks energy use and prices, indicates that in 2006 Wisconsin citizens sent almost \$10.5 billion out of state to purchase petroleum. If this law had been in effect, we would have retained \$2.62 billion for Wisconsin economy.

Spending will certainly surpass that value in 2007. Just the **change** in the cost of petroleum during 2006 was *\$1.1 billion* dollars when a barrel of oil increased, an average, from \$60 to \$90. Since 66.1% of our petroleum is now imported from a foreign country, that is money in the pockets of foreign interests rather than Wisconsin producers. That percentage will continue to grow every year unless we can find a way to produce, market, and use more fuel produced here in Wisconsin.

Promoting Our Wisconsin Energy Resources: Achieving 25 x 25

17 West Main St. • Madison, WI 53702 • 608-261-6609

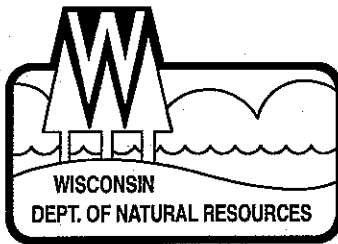
<http://power.wisconsin.gov>

The goal of "25 x 25" is critical because the alternative—continuing to enrich foreign interests, seeing our currency depreciate, and being held hostage to imported energy—is not sustainable or beneficial to Wisconsin's economy. A dollar spent on biofuels stays here in Wisconsin where it can circulate in our communities to invest in jobs, buildings and equipment, and become part of the local tax base.

Across Wisconsin, there is growing support for and awareness that Wisconsin businesses, industries, farmers, and landowners can and should have the opportunity to produce biofuels. As recently as Monday morning (January 14, 2008), a major Wisconsin employer, General Motors, announced a new commitment to biofuels production. Governor Doyle asked our office to pursue opportunities that will attract new biofuels production facilities to our state, such as the facility that GM's partner, Coskata, intends to place somewhere in the Midwest.

Biofuels production and markets must work hand in hand, however. This legislation complements the new federal biofuels blending requirements contained in the federal energy legislation passed by Congress last month.

Therefore, we urge the Committee to give favorable consideration to this bill.



State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

Jim Doyle, Governor
Matthew J. Frank, Secretary

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January 14, 2008

Senator Pat Kreitlow
Room 10 South - State Capitol
Madison, WI 53703

Representative Scott Suder
Room 21 North - State Capitol
Madison, WI 53703

Subject: Senate Bill 380

Dear Senator Kreitlow and Representative Suder:

I am writing to express my support of SB 380 and its companion bill in the Assembly. Department staff has reviewed the bill and find it to be a progressive and important step toward meeting the Governor's 25% by 2025 renewable energy goal. This goal was established through Governor Doyle's July 7, 2006 Declaration of Energy Independence and was one of 3 far-sighted initiatives launched that day to make Wisconsin the nation's leader in renewable energy.

In addition to the beneficial impacts to Wisconsin's energy situation, the Governor's goals for renewable energy in the state will have beneficial impacts for public health and climate change. Conventional diesel fuel is a source of significant air pollution in the state and nation. The increased use of biodiesel and other biofuels required by SB 380, however, will reduce green house gas, VOC, and particulate matter emissions and will lead to cleaner air in the state. Specifically, SB 380's requirements for the use of biodiesel and other biofuels in Wisconsin, will result in reduced emissions of:

- Carbon monoxide and carbon dioxide;
- Aromatic hydrocarbons, benzofluoranthene; benzopyrenes (hazardous air pollutants that contribute to ozone and particulate matter formation); and
- Direct (tailpipe) emissions of particulate matter.

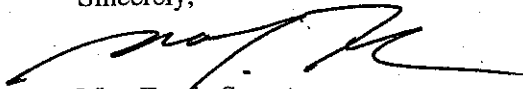
Why are these benefits important? As you may be aware, significant progress has been made in improving ozone air quality in the state:

- Ozone levels in Wisconsin in 2003 - 06 had improved so much that, in June 2007, the Department submitted a request to the U.S. Environmental Protection Agency (EPA) to redesignate 8 of 10 ozone nonattainment counties to attainment status.
- Recent modeling for the state indicates no ozone non-attainment areas for the state by 2009.
- The adoption of two critical new DNR air quality rules last year - the Clean Air Interstate rule and the NOx RACT rule - will further significantly reduce NOx levels in the State, a critical factor in reducing ozone formation.

However, almost all of this recent progress has been borne by utilities and industry. Your bill, if adopted, will result in critical reductions to particulate matter and ozone "precursor" emissions in Wisconsin from the mobile source sector. Further, SB 380 positions the state well to meet additional federal Clean Air Act standards proposed for ozone and particulate matter.

I applaud your leadership in introducing SB 380 and the companion Assembly bill and look forward to its rapid passage.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matt Frank', with a stylized flourish at the end.

Matt Frank, Secretary
Department of Natural Resources

Cc: Senator Russ Decker
Representative Michael Huebsch

Ethanol: A Convenient Solution to an Inconvenient Truth

**Moderate Ethanol Blends Can Save Money,
Reduce Pollution and Improve Mileage**



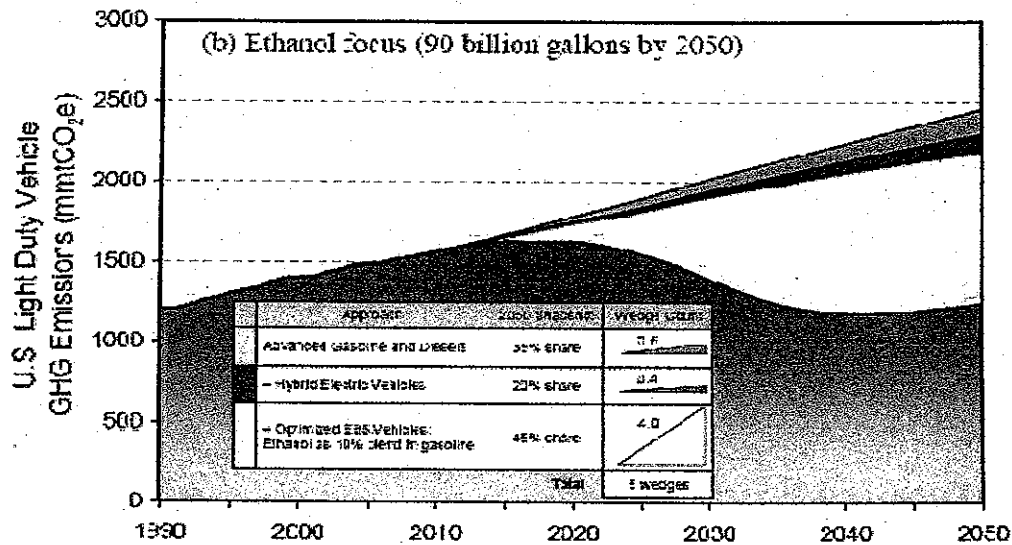
By Brett Hulsey, Better Environmental Solutions

For the American Coalition for Ethanol

Summary

This analysis shows that moderate 20-30% ethanol blends can reduce air pollution, improve mileage, and save drivers money in the most popular cars on the road in America today. Ethanol is a homegrown fuel, moderate blends can be delivered with existing infrastructure and is compatible with vehicles on the road today, and costs less than gasoline. Ethanol lowers CO2 emissions, making it one of our most effective greenhouse gas (GHG) reduction programs currently in place.

This study and others show that moderate ethanol blends are an easy way to improve vehicle mileage and can be a convenient solution to the 'Inconvenient Truth' of global warming. Ethanol today reduces CO₂ by at least 14 million tons and could reduce 58 million tons with widespread E20 usage, compared to burning 100% gasoline. More is possible according to EPA's Scenario B analysis from *A Wedge Analysis of the U.S. Transportation Sector*, April 2007, www.epa.gov/otaq/climate/420r07007.pdf shown below.



Congress is now considering increasing auto fuel efficiency (CAFE) standards and expanding the Renewable Fuel Standard for biofuels. By increasing the availability of moderate ethanol blends, car companies can immediately increase mileage for the entire vehicle fleet without making major modifications or expensive investments. Moderate ethanol blends also immediately reduce CO₂ and save drivers money in existing vehicles in the current fleet. This is needed while we wait for more efficient vehicles to improve mileage. Ethanol also reduces the most dangerous air pollutants.

Increasing ethanol blends can increase mileage to help immediately address soaring gasoline prices and a record 66% oil imports in 2006. Increasing auto efficiency by only 1% could save drivers \$4.35 billion annually and help increase our energy security.

Recommended next steps to promote this solution include:

1. Validating these results through larger studies with more vehicles;
2. EPA approval of the Minnesota request to make E20 an approved fuel; and
3. Federal policies that promote moderate ethanol blends like E20 and E30.

These simple steps can give us cleaner air, more energy security and save us money. For more information, go to www.BetterEnviro.Com or www.Ethanol.org or call 608-238-6070.



Better Environmental Solutions